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CableVision

INFORMATION AND ANALYSIS FOR CABLE TELEVISION MANAGEMENT

COURT ACTIONS FUEL OVERBUILD CONCERNS

ATC FLASHING GREEN LIGHT ON FIBER PLAN

POTENTIAL FOR NBC ROLE IN CABLE IMPROVES

GTE SHOWS BIG APPETITE IN CERRITOS PLANNING

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—Cover photo by Candace Drake.

Film product comparison-October

Film	Pay Networks					Distributor
...And Justice For All	HBO					Columbia
52 Pick-Up		ST				Cannon
8 Million Ways to Die	HBO				(MAX)	Vestron
After Hours					MAX	Warner Bros.
Airplane!		ST				Paramount
Alchemist, The	HBO					Vestron
All the Way Home					MAX	Paramount
American Anthem	(HBO)				MAX	Columbia
American Justice	HBO					TMS
April Fool's Day		ST	*TMC			Paramount
Avenging Force		ST	TMC			Cannon
Baby Blue Marine	HBO					Columbia
Bandit of Sherwood Sherwood Forest, The				DIS		Columbia
Basic Training					MAX	Movie Store
Beast From 20,000 Fathoms,The		ST	(TMC)			Warner Bros.
Belizaire the Cajun			*TMC			New Century
Beniker Gang,The	HBO					Lorimar
Benny's Place			TMC			Viacom
Best of Times,The			(TMC)		*MAX	Universal
Between Friends	HBO					R.Cooper
Big Trouble	HBO					Columbia
Biggest Bundle of Them All,The		ST			(MAX)	MGM/UA
Bill Cosby 'Himself'	HBO	(ST)	(TMC)			20th Century-Fox
Blake Edwards' A Fine Mess					MAX	Columbia
Bloodline			TMC			Paramount
Blue City		(ST)	*TMC			Paramount
Blue Velvet		ST	TMC			DEG
Bombs Away!	HBO				(MAX)	TMS
Born American			TMC			New Century
Born Yesterday				*DIS		Columbia
Boy Friend, The		ST				MGM/UA
Boy in Blue,The			(TMC)		MAX	20th Century-Fox
Bridge On The River Kwai,The	(HBO)		(TMC)	DIS	(MAX)	Columbia
Broken Promise			TMC			Viacom
Bullies	HBO		TMC			Universal
California Suite	HBO					Columbia
Carey Treatment,The		ST				MGM/UA
Cheyenne Social Club,The			TMC		MAX	Warner Bros.
Child of Glass				DIS		Disney
Chorus Line,A	HBO				(MAX)	Columbia
Citizen Kane					MAX	RKO Pictures
City Limits			TMC			Atlantic
Class			TMC			Albacore
Class of Nuke'em High			*TMC			Troma
Clockwise					MAX	Thorn-Emi
Clockwork Orange,A			(TMC)		MAX	Warner Bros.
Close to My Heart			TMC			Warner Bros.
Clue		(ST)	TMC			Paramount
Cobra	(HBO)				*MAX	Warner Bros.
Cocoon	(HBO)	(ST)	(TMC)		MAX	20th Century-Fox
Code Name: Emerald					MAX	MGM/UA
Commando	HBO	(ST)	*TMC		(MAX)	20th Century-Fox
Company of Wolves			*TMC			Cannon
Competition, The	HBO					Columbia
Concrete Jungle, The		ST				Lorimar
Confessions of a Driving Instructor					MAX	Columbia
Country		ST			MAX	Touchstone
Dancing in the Dark				(DIS)	MAX	New World
Dangerously Close		ST	(TMC)			Cannon
Deadly Friend					MAX	Warner Bros.
Deathtrap	HBO		(TMC)			Warner Bros.
Delta Force,The		ST	(TMC)			Cannon
Destroyers,The	*HBO					Concorde
Dirt Bike Kid,The				DIS		Worldvision Ent.
Dirty Dozen,The			*TMC		(MAX)	MGM/UA
Do You Mean There Are Still Real Cowboys?					MAX	J.Blair
Doctor's Wives					MAX	Columbia
Dog of Flanders, The				DIS		UPA Productions
Don't Go Near the Water			TMC		(MAX)	Warner Bros.
Dragonslayer	*HBO	(ST)	*TMC	(DIS)		Paramount
Dream Chasers, The				*DIS		Pacific Intl.
Dresser, The			TMC			Columbia
Dummy					MAX	Warner Bros.
Echoes in Crimson					MAX	Astral Film
Electric Dreams		(ST)	(TMC)	DIS	(MAX)	MGM/UA
Eliminators			*TMC			DEG
Ellie	(HBO)		(TMC)		MAX	Troma
Emerald Forest,The			*TMC			Embassy
Emmanuelle 4		(ST)	TMC		(MAX)	MGM/UA
Enemy Mine	(HBO)	(ST)	(TMC)		MAX	20th Century-Fox
Every Which Way But Loose	HBO				(MAX)	Warner Bros.
Exorcist, The					*MAX	Warner Bros.
Extremities		*ST	*TMC			Atlantic
Far From the Madding Crowd			TMC			MGM/UA
Fast Times at Ridgemont High		ST	TMC		MAX	Universal
Ferris Bueller's Day Off		ST	TMC			Paramount
Forbidden	HBO					Jozak/Dec
Foxes					MAX	MGM/UA
Foxtrap	HBO					Snizzlefr
Friendships, Secrets and Lies					MAX	Warner Bros.
From Beyond					MAX	Vestron
From Here To Eternity					MAX	Columbia
Funeral in Berlin					MAX	Paramount
Garnet Princess, The					MAX	Astral Film
Godfather Part II, The					MAX	Paramount
Godfather, The					MAX	Paramount
Goldy-The Last of the Golden Bears		ST				Nu-Image
Goodbye Mr. Chips		ST	(TMC)	DIS		MGM/UA
Goodbye, Emmanuelle		ST				Miramax
Grace Quigley	HBO					Cannon
Grand Baby				DIS		Rainbow TV Works
Great Gatsby, The			*TMC			Paramount
Half Moon Street		ST	(TMC)			Presser
Happy Hooker Goes Hollywood, The		(ST)	*TMC			Cannon
Happy Hooker, The		ST	(TMC)			Telepictures
Hard Traveling					MAX	New World
Harum Scarum		ST				MGM/UA
Haunted Honeymoon	(HBO)	(ST)	TMC			Orion
Heaven Help Us	(HBO)				MAX	Silver Screen
Heller In Pink Tights		ST				Paramount
Herbie Rides Again				DIS		Disney
Here Come the Nelsons				DIS		Universal
Hi, Good Lookin'!				DIS		Universal
Hill, The		ST				MGM/UA
Holcroft Covenant, The	HBO					Thorn-Emi
Honeymoon Lodge				DIS		Universal
Hot Times		ST				Film Gallery
House of the Rising Sun	HBO					Fox/Lorber
How the West was Won		ST			(MAX)	MGM/UA
How to be Very, Very Popular				DIS		20th Century-Fox
Howard The Duck	(HBO)	(ST)	(TMC)		MAX	Universal
Howling II					MAX	Hemdale
I Confess		(ST)	*TMC			Warner Bros.
Interrupted Melody					MAX	MGM/UA
It's Not The Size That Counts		*ST				J.Brenner
It's Only Money					MAX	Paramount
Jaws II		ST	TMC		MAX	Universal
Jazz Singer, The			TMC			Warner Bros.
Joy of Sex		*ST				Paramount
Julia		(ST)	(TMC)		MAX	20th Century-Fox
Key Exchange	HBO		TMC			20th Century-Fox
Kid Colter	HBO	(ST)				TMS
Killing Machine, The			TMC			Lorimar
Kim			(TMC)	DIS		MGM/UA
Kiss of the Spider Woman		(ST)	*TMC			Embassy
Knights & Emeralds	HBO					Warner Bros.
Labyrinth	HBO				(MAX)	Tri-Star
Lasta Innocent Man, The	*HBO					M. Singer
Laura		*ST				Group S
Legend	*HBO	(ST)		(MAX)		Universal
Legend of Lobo, The				DIS		Disney
Lies			TMC			New Line
Lightship, The	HBO					Castle Hill
Link	HBO					Thorn-Emi
Long Gone	*HBO					Landsburg
Loose Screws		(ST)	TMC		(MAX)	New Horizons
Lucky 13	HBO				(MAX)	Wescom
Man and a Woman, A					MAX	Warner Bros.
Man and a Woman: 20 Years Later, A					MAX	Warner Bros.
Man For All Seasons,A					MAX	Columbia
Man in the Wilderness			(TMC)		MAX	Warner Bros.
Man Who Broke 1,000 Chains, The	HBO					Journey
Man Who Saw Tomorrow, The					MAX	Warner Bros.
Manhattan Project, The	(HBO)	(ST)	(TMC)		MAX	20th Century-Fox

Film	Pay Networks					Distributor
Mata Hari					MAX	Cannon
Member of the Wedding				DIS	MAX	Columbia
Million Dollar Collar				DIS		Disney
Misunderstood			(TMC)		*MAX	MGM/UA
Mona Lisa			TMC			Island Pictures
Money Pit, The	(HBO)	ST			(MAX)	Universal
Music Man,The	(HBO)				MAX	Warner Bros.
My Beautiful Laundrette			TMC		MAX	Orion
My Geisha					MAX	Paramount
My Little Pony				DIS		Sunbow Productions
My Man Adam	HBO					Tri-Star
Naked Face, The					MAX	Cannon
Name of the Rose, The	HBO	ST	TMC			20th Century-Fox
National Lampoon's European Vacation		ST	TMC		MAX	Warner Bros.
Neon Maniacs	HBO					Castle Hill
Neverending Story, The	HBO					Warner Bros.
Night Shift	HBO		(TMC)		(MAX)	Warner Bros.
Night Fall					MAX	Columbia
Nightmare on Elm Street Part 2	HBO					New Line
Nightwing					*MAX	Columbia
Nine Deaths of the Ninja	HBO	(ST)				Crown
Nomads		*ST	(TMC)			Atlantic
Nothing But The Truth			(TMC)		MAX	Universal
O. Henry's Full House			(TMC)	(DIS)	MAX	20th Century-Fox
Obsession	HBO					Columbia
Off Beat		*ST	(TMC)			Touchstone
On the Double					MAX	Paramount
Once Bitten	HBO		(TMC)		(MAX)	S.Goldwyn
One on One	*HBO					Warner Bros.
One-Eye Jacks			*TMC			Paramount
Our Time					MAX	Warner Bros.
Out of Africa	HBO	(ST)	(TMC)		(MAX)	Universal
Out of Bounds	HBO					Columbia
Outland			TMC		MAX	Warner Bros.
Outlaw Blues					MAX	Warner Bros.
Outlaw Josey Wales, The		ST	TMC		MAX	Warner Bros.
Perfect Timing		*ST	(TMC)		(MAX)	Film Gallery
Piece of the Action, A					MAX	Warner Bros.
Playbirds, The					MAX	Satori
Pleasure of His Company, The			TMC			Paramount
Police Academy 3: Back in Training	HBO				(MAX)	Warner Bros.
Polly of the Circus		(ST)	TMC			MGM/UA
Pope of Greenwich Village, The	HBO	(ST)	(TMC)		(MAX)	MGM/UA
Power					MAX	Lorimar/Telepictures
Pretty in Pink		ST	(TMC)			Paramount
Privates on Parade					MAX	Ganga Dist.
Purple Rain			TMC		MAX	Warner Bros.
Quarterback Princess				DIS	(MAX)	Televentures
Quentin Durward				DIS		MGM/UA
Quick and the Dead, The	HBO					J.Cates
Return of the Jedi	*HBO	(ST)			(MAX)	Lucasfilm
Return of the Living Dead, The	(HBO)				MAX	Hemdale
Return to Oz				DIS		Disney
Rich and Famous			TMC			MGM/UA
Richard Pryor Here and Now		ST			(MAX)	Columbia
Rocky IV					*MAX	MGM/UA
Room With a View		ST	TMC			Cinemcom
Rubber Tarzan				DIS		Janus Films
Runaway Train		(ST)	TMC			Cannon
S.O.B.					MAX	Lorimar
Secret Places	HBO					20th Century-Fox
Secrets of a Mother and Daughter	HBO					Columbia
Sesame Street Presents: Follow That Bird	(HBO)		TMC			Warner Bros.
Shaker Run	HBO				(MAX)	S.Goldwyn
Showboat			(TMC)	DIS	(MAX)	MGM/UA
Silver Chalice			TMC			Warner Bros.
Silver City	HBO					S.Goldwyn
Something Wicked This Way Comes	(HBO)	ST				Touchstone
Soul Man	HBO				MAX	New World
Spacecamp	(HBO)				MAX	ABC Dist.
Spies Like Us					MAX	Warner Bros.
Spirit of St.Louis, The					*MAX	Warner Bros.
Spy Who Came in From the Cold					MAX	Paramount
Stand By Me	HBO				MAX	Columbia
Stephen King's Silver Bullet			TMC			Paramount
Stitches	(HBO)				*MAX	R.P.Marcucci
Strange Invaders			*TMC		(MAX)	Orion
Streetcar Named Desire			TMC			Lorimar
Stripes					*MAX	Columbia
Summer Rental		*ST	TMC			Paramount
Superman	*HBO					Warner Bros.
Swarm, The					MAX	Warner Bros.
Target	(HBO)				MAX	Warner Bros.
Teachers		*ST	(TMC)		(MAX)	MGM/UA
Terminal Man, The			TMC		MAX	Warner Bros.
Tex	HBO	ST		(DIS)	(MAX)	Touchstone
Texas Chainsaw Massacre: Part2		*ST				Cannon
Thank God It's Friday	HBO					Columbia
They All Kissed The Bride					MAX	Columbia
Three Without Fear				DIS		Disney
Tough Guys		*ST	*TMC			Touchstone
Toxic Avenger		ST	TMC			Troma
Transylvania 6-5000					MAX	New World
Trick or Treats		ST	TMC			DEG
Troll	HBO				(MAX)	Vestron
Trouble in Mind			TMC			Columbia
Twentieth Century				DIS		Columbia
Under Fire			TMC		MAX	Orion
Valet Girls					MAX	Vestron
Vamp	(HBO)				MAX	New World
Venus					MAX	Goldfarb Dist.
Violation of Sarah McDavid, The	HBO					Televentures
Virgin and the Gypsy, The			TMC			Viacom
Warning Sign	HBO	(ST)	(TMC)		(MAX)	20th Century-Fox
Warrior and the Sorceress, The	HBO	(ST)			(MAX)	Concorde
Weird Science	(HBO)		*TMC			Universal
When Nature Calls			TMC			Troma
When the Boys Meet the Girls		ST				MGM/UA
Where Do We Go From Here?				DIS		20th Century-Fox
Where the River Runs Black					MAX	MGM/UA
Who's Been Sleeping In My Bed?					MAX	Paramount
Wild Bunch, The			TMC		MAX	Warner Bros.
Windwalker				DIS		Pacific Intl.
Witness		*ST	(TMC)			Paramount
Wolfen					MAX	Warner Bros.
Words By Heart				DIS		Wonderworks
You Light Up My Life					MAX	Columbia
Young Lady Chatterly II		ST			(MAX)	Blum Group
Young Nurses, The					MAX	Viacom
Zeppelin			TMC		MAX	Warner Bros.

Cable Network Legend:
TMC—The Movie Channel
HBO—Home Box Office
DIS—The Disney Channel
ST—Showtime
MAX—Cinemax

- Networks in parentheses indicate carriage in May, June, July August and/or September.
- An asterisk indicates the film is a carry-over from May, June, July August and/or September.
- In total, 274 films appear on the October schedules of Home Box Office, Showtime, The Movie Channel, The Disney Channel and Cinemax. Of those titles, during the last six months, none has played on all five services, 11 have played on four of the five services, 22 have played on three, and 80 have played on two of the five services. One hundred and sixty titles on the October schedules of these five services were unduplicated in the last six months.
- The motion picture distributor with the most titles is Warner Bros. with 43, Columbia with 30, MGM/UA with 25, Paramount with 25, 20th Century-Fox with 14, Universal with 13.

Wall Street report finds cable nets matching b'cast nets in total income

By Virginia Munger Kahn

In a startling report that underscores cable's increasing financial power, Dennis Leibowitz, a long-time industry observer and media analyst at Donaldson, Lufkin & Jenrette, predicts that this coming fiscal year the basic cable networks will earn as much money as the three broadcast networks did last year—$250 million compared to $270 million.

That outstanding performance will translate into higher values for the companies that own the networks—primarily Viacom, Turner and ABC/Capital Cities—as well as the ability to compete on an equal footing with other media for top-quality programming.

While some executives and analysts cautioned that last year was the worst in broadcasting network history and that this coming year will be the beginning of a dynamic new era of growth for the cable programming industry, most agreed that Leibowitz's overall premise—that the basic cable networks are turning into highly profitable businesses—is right on the money.

This turn to profitability comes from both of the revenue streams that support these networks, reflecting increased operator commitments and increased advertising. This year cable operators are projected to contribute approximately $418 million in subscriber revenues to the basic networks, and network advertising has been projected to hit $878 million. Together, the two revenue streams will provide more than $1.3 billion to the cable networks.

That's still small compared to the almost $7 billion in revenues the broadcast networks took in last year, but because of the far better margins the cable networks achieve, the amount of operating income they take in is almost equal to the networks. Leibowitz notes that the broadcast networks operate on a 4 percent margin, while the cable networks often operate at better than 20 percent margins. Those cable margins will probably decline in coming years as the services spend increasing amounts of money on programming and promotion, although cable network executives assert they will never lose touch with their "lean-and-mean" style of operation.

Today, ESPN can produce an hour of college football for half of what it costs a conventional network, Leibowitz notes, and its lead anchor earns $150,000 a year vs. Brent Musberger's $1 million or more. CNN's budget for running a 24-hour-a-day news service is $100 million a year, vs. $300 million a year for each of the broadcast networks, which have a far more limited news programming hole. No one at CNN earns what Dan Rather earns, and CNN is non-union.

Herb Granath

Another significant factor in the lower expense structure for the cable networks is their lack of dependency on Hollywood for most of their programming. "Because the financial interest/broadcast syndication rules create an oligopoly in Hollywood, it has forced the networks into a high-cost operation," says Richard MacDonald, media analyst at First Boston Corp. The rules allow the networks to produce only a limited amount of programming themselves, which results in a dependency on Hollywood for much of the product that appears on the screen.

"A large part of the costs (associated with the creative process) has to do with ownership of product," notes Tom Freston, president of MTV Networks. "In our case, we keep the bulk of the

Network revenues for 1986 and 1987 (Six months ended June 30, 1987)

	Revenues		Operating Income*	
	1986	1987	1986	1987
Viacom (Showtime/TMC, MTV, VH-1, Nickelodeon, Nick at Night, 1/3 of Lifetime)	$255.6m	$250.4m	$31.5m	$33.0m
Turner Broadcasting (CNN, Headline News, WTBS)				
—Cable Productions	$81,575	$97,197	$22,653	$31,592
—Broadcasting	$96,931	$108,841	$12,333	$46,788
Capital Cities/ABC ** (ESPN, 1/3 of A&E, 1/3 of Lifetime)	—	$85m	—	$15 to 20m
Time Inc. (Programming operations)	$483m	$483m	$73m	$71m

* Earnings from operations plus depreciation and amortization
** Estimates from Robert Ladd, Deutsche Bank Capital

production in-house." For the conventional networks, virtually the entire creative process is out of their control.

But even more fundamentally, the networks are locked into a game where, in order to achieve the types of mass audiences they need to deliver to advertisers, they must spend substantial amounts of money acquiring programming with high production values and then promoting it. Mark Riely, media analyst with Eberstadt Fleming, notes that the higher the ratings, the more expensive it becomes to move those ratings up incrementally.

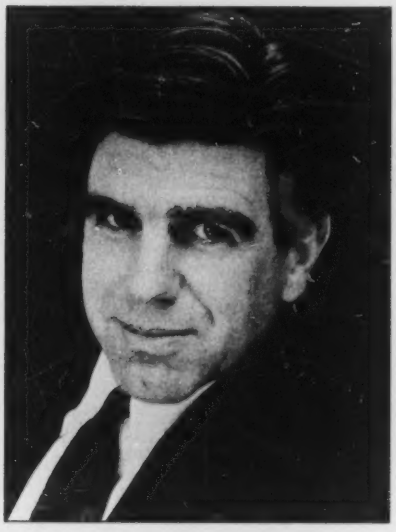
Bottom line

The three networks will spend more than $5 billion on programming this year, according to Paul Kagan Associates, trying to squeeze an extra ratings point here or there that will make the difference between financial success or failure. Last year the difference between the average ratings achieved by NBC, CBS and ABC did not amount to more than four points—17.8 for first place NBC vs. 14.1 for last place ABC. And yet the difference on the bottom line was phenomenal—a $70-million operating loss for ABC vs. $300 million in operating profit for NBC.

In contrast, the cable networks are projected to spend approximately $1.7 billion this year on programming. The fact that cable networks have historically spent much less on programming is not only a function of a lack of revenues, industry executives note. It also relates to the size of the audience to which the cable services have typically been targeted. "It comes down to the nub—the difference between the commercial networks and the cable networks," says Herb Granath, president of ABC Video Enterprises. "You don't need the same kind of budgets" for car chases and explosions that attract the mass audiences of the broadcast networks, he says.

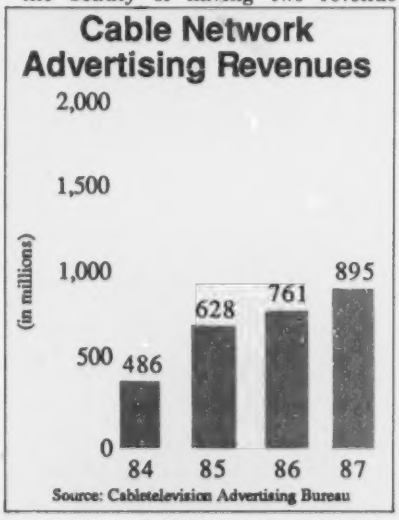
That, however, will change as cable networks try to attract larger audiences by paying more for programming. A perfect example of that willingness to pay up is ABC's own ESPN, which recently agreed to buy a three-year package of NFL games for $153 million. While ESPN's production costs are projected to be substantially less than the commercial networks, it still has to pay the "going rate" to acquire the rights to televise the games.

What was critical about ESPN's decision to go after the NFL was its confidence in the willingness of cable operators to back the bid. It is here—on the revenue side in the form of operator fees—that the real difference between the commercial networks and the cable services manifests itself. While the networks have suffered through their worst year in history as a result of the vicissitudes of the advertising business, cable services have received increased subscriber fees from operators along with a slowly, but steadily increasing share of the television advertising dollars.



Tom Freston

What the new-found financial strength of the basic cable networks shows, says Turner Broadcasting Executive Vice President Bob Wussler, is that "when properly situated, the dual stream of income is a very formidable combination." As MTV's Freston notes, "the beauty of having two revenue streams is that the cable fees are predictable and stable. Advertising clearly has the upside, but it also has a downside. It is volatile."



At this point, about one-third of the cable networks' revenues come from operator fees with the remaining two-thirds provided by advertising, according to Paul Kagan Associates.

That general structure holds up in ESPN's NFL package. Traditionally, the network has seen 60 percent of its revenues come from advertising and 40 percent from subscriber fees. Cable operators reportedly are paying about $46 million in fees for the first year of the contract and advertising revenues are projected to hit about $66 million. ESPN puts those numbers in perspective by saying that the operators will cover the costs of the licensing rights for the games this year, while advertisers are covering the costs of the promotion and production of the shows.

The fees cable operators are paying cable networks have not always been so significant. Just three years ago, Kagan estimated operators paid the networks just 36 cents per subscriber. Today, cable operators pay about 83.1 cents per subscriber per month to the cable networks out of an average $12-per-month basic rate.

Sub fees up 36 percent

By the end of this year revenues to the networks from subscriber fees will have risen 36 percent over the three-year period from 1985 through the end of 1987. The increases in subscriber fees include new services that have been introduced that carry fees, as well as fee increases for existing services, note industry analysts. Network advertising revenues will have risen an average 22 percent during this period.

The importance of those subscriber fees to the networks is clear. "If you take away the (subscriber fees), the profits are gone," notes analyst Riely. At the same time, Leibowitz writes, almost all the increases in fees have gone straight to the networks' bottom line.

Considering all the talk less than two years ago about how the cable networks would eventually *pay* the operators to be carried on their systems, today's situation is extraordinary. Not only are cable operators quiescent about the subscriber fees they pay to the networks, they've even anteed up an additional 9.25 cents to ESPN for the NFL.

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Wall Street,
from page 65

Granath and Wussler cite the 1986 NCTA Convention in Dallas, where TCI President John Malone offered Ted Turner additional financial support, and a high-level NCTA meeting in Palm Springs last November as the key turning points in their estimations of what the cable operators would be willing to do for the networks. "It was a dawning on industry leaders of the importance of cable programming," says Wussler. Granath notes that "cable operators *finally* recognize that what they are selling is programming. No one buys wires."

Rich MacDonald puts the transformation in more concrete terms. "Cable operators realized their margins were unbelievable. Every time they added a new subscriber, they kept 70 percent of the increase. The rational thing to do was increase payment to the networks" so they can spend more on programming. Operators will still get a "high return on the backend," MacDonald notes.

Leibowitz writes that with the NFL contract one additional customer paying $22 per month with a 45 percent profit margin represents an "enormous return' for operators who are only paying an additional 9 or 10 cents per subscriber for those games. Those new subscribers would be worth $9.90 per month each in operating profit to the cable operator.

All the network executives point to the newfound financial commitment by cable operators to programming as key to their ability to bid for high-profile, high-priced programming. Granath says Lifetime would never have bid for and won *Falcon Crest* nor would ESPN have gone after the NFL without that commitment.

Neither programmers or operators soon see the day when subscriber fees are eliminated. While many of the basic cable networks started their lives promising operators that Madison Ave. would one day carry the costs of running their services, none of them believe this now. In fact, most see the percentage of their revenues from subscriber fees getting closer to 50 percent over the next two to three years from their current 33 percent to 40 percent levels.

They stress that those revenue increases will be as much a function of increased penetration and numbers of subscribers as increased rates. While Kagan's numbers indicate an average 32 percent increase in per subscriber fees in the last three years, most operators indicate that the increase in fees on a per-network, per-unit basis have been far lower—closer to 10 percent to 15 percent. Those rates of increase are expected to continue into the future.

Average fee per subscriber per month

1984	36.2¢
1985	50.9¢
1986	66.7¢
1987(E)	83.1¢

Estimates of Paul Kagan Associates, Carmel, Calif.

Meanwhile, advertising revenues are projected to increase about 18 percent per year on average over the next three years. During this period they will have doubled from $738 million in 1986 to more than $1.4 billion by 1990.

Despite this rise in advertising revenues well above the inflation or GNP rate, cable network executives said they do not believe advertising can carry their whole financial load. "Cable networks will never reach the mass audience (of the broadcast networks)," says ABC's Herb Granath. "We don't think advertising will ever reach a point (that it can) support the kind of original programming we want to do."

While cable operators say that ideally they would love to see subscriber fees reduced if not eliminated, they admit that day is far in the future. Charles Dolan, chairman and chief executive officer of Cablevision Systems, which owns and operates both systems and programming networks, says the "established" networks have a right to expect some sort of fee from the operators. Dale Parker, vice president for programming at Heritage Communications, sees added leverage in that operator commitment. "Frankly, I would like to see some sort of presence there," he says. "It gives operators continued importance in the eyes of the programmers who will develop programming more customized to cable."

Although Parker notes subscriber fees have increased more than most operators would like in the last couple years, he says operators are resigned to the fact that the networks are not going to give up those fees. The same does not hold true for "someone starting a service," Dolan says. "They should not expect cable operators to help them finance an unproven idea."

In fact, the established services have been successful in continuing to hike their rates, while new services, such as the home shopping channels, have had to give up equity interests or pay operators to carry their services. In general, says Robert Ladd, media analyst at Deutsche Bank Capital, the prospects for subscriber fee increases for the more dominant services is "pretty good."

In the future, notes Riely, the economic relationship between the networks and operators will depend on the extent to which the networks are not easily duplicated, the extent to which operators continue to consolidate, and the degree to which competitive delivery mechanisms for the programmers' services are available. "Those services that have the most differentiated, most difficult-to-start services will be in a stronger position," says Riely.

Right now, most analysts say, the negotiating leverage between established networks and the operators is fairly divided. However, the vulnerability of the programming services to new competitors was amply demonstrated less than a year ago when programming powerhouse Turner Broadcasting and CNN were made to bend on rate increases under the threat of a new news service from NBC.

Bob Wussler

New services on the horizon

At the same time, NBC's inability to launch the new channel points to the difficulties potential new entrants into the programming field face when trying to launch new services or buy into the business. But this must be weighed against the fact that the financial success of the networks is sure to lure new players into the programming game and provide impetus for those companies already in the field to launch new services. The financial rewards for doing so are potentially great.

Leibowitz notes in his report that the price NBC and others were willing to consider paying Turner for an equity interest in CNN almost two years ago put a value of approximately $800

million on the network. That would have been 16 times CNN's 1986 cash flow of $49 million, a "generous multiple," Leibowitz writes.

Rich MacDonald, using a more conservative multiple for ESPN of 13 times next year's projected cash flow of $100 million, still comes up with an implied value for that network of more than $1.3 billion, more than what most analysts feel the ABC network itself would fetch. "Those are staggering values," says MacDonald. As far as CNN is concerned, he says, "it hasn't found its top yet."

That rise in value and strong financial performance has led each of the three major cable programming companies to seriously consider starting up new services. Herb Granath, Bob Wussler and Tom Freston all say their companies will look to start new services in the future. TBS is probably the farthest along in those plans, having already started work on its so-called "fourth network."

Chuck Dolan

The programming service executives contend that with their costs fairly well fixed for the future and their knowledge of the business, they are in the best position to start new networks. "We have tremendous economies of scale," notes MTV's President Freston. "With four networks already, there is no need to increase head counts, real estate, the phones," in the future, he says.

ABC's Granath says he does not believe industry wisdom that it is almost impossible to start new cable programming networks now. "You have to start with a workable premise, and you have to recognize that it will take five to seven years to make it successful," he notes.

The difficulty for potential new entrants in the field is that there are few opportunities for buying into the business. "It's one thing to be interested; it's another thing to do it," says Freston.

Only a few programming services are not already owned by companies like Viacom, Turner or ABC/Capital Cities. The exceptions include Financial News Network and The Discovery Channel, which is owned in part by a consortium of MSOs. It is here that companies such as NBC that want to move into cable programming may find their best opportunities.

Chuck Dolan is one of several cable industry executives who say they welcome the move by the networks to increase their role in cable programming. "They are the most successful programmers in the business. Why should they limit themselves to broadcasting?" asks Dolan. Says another executive, "It's good to hear them say (they're interested in the cable business). That means we're meeting with success."

Still another natural player in the cable programming arena is Hollywood. Right now, MCA and Paramount, through their investment in USA Network, are the only major participants in cable programming. However, less than two years ago, Warner Communications played a major role in the business, and today, there are serious negotiations underway between Viacom and Coca-Cola about the latter company's potential investment in one or more of Viacom's services.

Tom Wertheimer, executive vice president at MCA and a member of the board of directors of the USA Network, says MCA is very pleased with its investment in cable programming, and the company plans to be in the business for a long time to come. "The basic cable networks have for too long been a well-kept secret. There's a lot of hidden gold," he says. "The potential is extraordinary." ■

This Announcement Appears As a Matter of Record Only.

March 1987

Dickinson California-Arizona Associates, Ltd.

$11,000,000 Senior Secured Notes Due December 31, 1996

6,500,000 6-1/2% Subordinated Notes Due December 31, 1996

The Undersigned Structured This Recapitalization Plan and Arranged for the Private Placement of These Notes.

Cable Investments, Inc.
8400 East Prentice Avenue, Suite 1115
Englewood, Colorado 80111
(303) 793-3344

NOTES

Financial/Stocks

Viacom reports first quarter earnings

NEW YORK—Viacom Inc. reported increased second quarter and first-half revenues for 1987, as a result in gains in the cable and broadcasting areas.

Revenues for the cable division for the three month period rose 27 percent, from $55.8 million in 1986 to $70.7 million in 1987. Operating income for the same period rose 39 percent, from $19.7 million to $27.3 million. For the six month period, cable revenues rose

Subscriber Count

Satellite national services

Basic services	Affiliates	Subscribers
ACTS Satellite Network	319	5,805,477
Alternate View Network	238	2,770,000
Arts & Entertainment (A&E)	2,400	24,000,000
Black Entertainment Television (BET)	912	14,900,000
CBN Cable Network	7,710	36,708,000
C-SPAN	2,600	31,000,000
C-SPAN II	420	11,600,000
Cable News Network (CNN)	10,944	41,078,000
Cable Value Network	125	17,733,011
Consumer Discount Network	40	750,000
Consumer Discount Network 2	60	2,000,000
Country Music Television	470	6,700,000
The Discovery Channel	1,909	20,400,000
ESPN	17,000	43,700,000
Eternal Word Television Network (EWTN)	373	6,800,000
Financial News Network (FNN)	1,650	26,100,000
FNN/Score	1,080	19,800,000
FNN/TelShop	700	11,000,000
GalaVision	288	900,000
Gospel Music Network	31	744,447
Headline News	3,265	26,220,000
Hit Video USA	41	1,700,000
Home Shopping Network	1,036	14,182,185
Home Shopping Network 2	229	5,524,000
International Television Network	55	7,000,000
The Inspirational Network	1,300	13,300,000
The Learning Channel	900	9,024,000
Liberty Broadcasting Network	90	1,300,000
Lifetime	3,400	33,000,000
The Motivation Network	7	242,900
Music Television (MTV)	4,709	33,400,000
The Nashville Network	4,800	33,500,000
National Jewish Television (NJTV)	295	6,800,000
National Shopping Club	65	1,500,000
Nickelodeon	5,005	31,700,000
The Nostalgia Channel	215	1,200,000
Ozark Mountain Network	N/A	N/A
QVC Network	531	8,853,000
Silent Network	300	9,134,016
Sky Merchant	12	600,000
Tempo Television	665	12,500,000
The Travel Channel	120	6,000,000
Trinity Broadcasting Network	523	7,073,000
USA Network	9,200	39,000,000
Video Hits One (VH-1)	1,588	17,300,000
Video Shopping Mall	60	23,000,000
The Weather Channel	2,750	28,151,540
WGN-TV	10,061	22,481,000
WOR-TV	2,162	3,258,590
WPIX-TV	347	2,471,000
WTBS-TV	11,991	41,952,000

Pay services		
American Movie Classics	1,000	6,000,000
Bravo	300	450,000
Cinemax	3,650	4,100,000
The Disney Channel	4,300	3,175,000
Festival	N/A	N/A
Home Box Office (HBO)	6,700	15,000,000
The Movie Channel	3,250	3,250,000
The Playboy Channel	600	550,000
Showtime	3,200	5,400,000

Audio services		
Cable Radio Network	24	1,630,000
JazzAmerica	N/A	N/A
KKGO Super Jazz	15	123,560
Moody Bible Institute	59	868,516
National Black Network	N/A	N/A
Satellite Radio Network	251	740,000
Seeburg Lifestyle	151	2,465,273
Seeburg Lifestyle Adult Contemporary	25	536,227
Tempo Sound	300	1,000,000
WFMT Chicago	168	1,343,000

Text services		
AP News Cable	[illegible]	2,500,000
AP Business Plus	54	1,400,000
AP Business Watch	20	500,000
AP News Plus	75	2,100,000
Cable SportsTracker	34	2,332,000
DBC/MarketWatch	240	5,000,000

Basic services	Affiliates	Subscribers
Electronic Program Guide (EPG)	407	7,042,000
EPG Jr.	114	124,786
Genesis Cable Storytime	35	1,350,000
Reuters News View	127	2,437,000
TV Decisions	170	6,300,000
UPI Data Cable	450	4,000,000
X*Press	60	1,000
X*Press Exchange	200	1,000,006

Non-satellite-fed national services

Bicycled services	Affiliates	Subscribers
Cable Auto Showcase	5	400,000
Cable Video Entertainment	170	6,500,000
Fuji Network	3	12,000
Nippon Golden Network	3	12,000
Telaction	N/A	N/A
Vector Consumer News	5	200,000
Vector Consumer Shopping Guide	9	325,000

Regional entertainment services

Basic services	Affiliates	Subscribers
Atlanta Interfaith	7	156,000
Bay Area Religious Channel (BARC)	6	113,000
Buffalo Sabres Hockey	9	400,000
Cable TV Network of New Jersey	36	1,275,174
The Ecumenical Channel	12	170,000
KTVT	209	1,891,000
Life Newsvision	35	50,000
Madison Square Garden	90	2,015,000
Meadows Racing Network	14	446,000
News 12 Long Island	7	500,000
Prime Cable	8	325,865
Prime Ticket	30	1,600,000
SportsVision (Chicago)	45	939,400

Pay services		
Dodgervision	44	935,000
Giantsvision	38	1,000,000
Home Sports Entertainment—Houston/Dallas	119	216,000
Home Team Sports	100	600,000
New England Sports Network	159	181,482
PRISM-Philadelphia	86	379,004
Pro-Am Sports	120	115,000
SportsChannel (New England)	140	710,000
SportsChannel (New York)	77	842,000
Z Channel	21	84,000

Note: Figures for affiliate and subscriber counts will be updated quarterly unless information is provided by the service. Send information to: CableVision, Attention Cable Stats, P.O. Box 5208-T.A., Denver, CO 80217.
N/A denotes information not available.
TBA denotes to be announced.

Announced services

Satellite-fed services	Expected launch
Americana Network	2nd Quarter 1988
American Catalog Network	3rd Quarter 1987
Apollo Entertainment Television	TBA
Comedy Television	2nd Quarter 1987
Discovery Computer Network	1987
Discovery Financial Network	1987
Drive-In Movie Channel	2nd Quarter 1987
El Canal Musical	4th Quarter 1987
Ethnic Radio Networks	1st Quarter 1987
The Fashion Channel	8.87
International Cablecasting's Cable Radio Network	9.87
Movietime	7.87
Pay Per View Partners	4th Quarter 1987
The Preview Network	4th Quarter 1987
Television Catalog	1st Quarter 1988
Tunnelvision	10.87
United Shoppers of America	9.87
Vacation Travel Network	4th Quarter 1987
World Travel Network	4th Quarter 1987
You TV	1.88